

## **Foreword**

**Background:** This Foreword provides a summary of significant changes from prior years in amounts and/or procedures, including new legislative requirements and impacts; as well as, input received from contractors, associated water authorities, and the Central Valley Project Water Association (CVPWA) on the 2003 preliminary water rates and the fiscal year 2001 draft contractor accountings.

The FY 2001 contractor accountings are provided in final form. Please note that Reclamation has a site on the Internet where the 2003 water rate schedules are posted for reference. This site can be accessed at [www.mp.usbr.gov/cvpwaterrates](http://www.mp.usbr.gov/cvpwaterrates). If there are any problems in accessing the site or viewing the schedules, please contact Ms. Catherine Crawford at 916-978-5350.

### **Chief Financial Officers Audit Adjustment**

Per letters sent to contractors on February 4, 2002, contractors were notified of the Office of Inspector General's requirement to reclassify costs from capital to expense. By letter dated June 7, 2002, Reclamation notified each contractor of two options that were available in accounting for such costs. The first option was to apply the balance to the 2001 accountings and the second option was to include the costs equally over a 5-year period beginning in 2003. For the 2001 accountings and 2003 water rates, the requested options were incorporated as the contractors indicated. A 2003 water rate component was established for contractors that chose option 2.

Draft rates inadvertently included the deficit due to the CFO adjustment for contractors who chose option 1 in the interest bearing deficit rate component calculations. In accordance with letter dated June 7, 2002, final deficit rates reflect a reduction by the CFO adjustment in the cumulative deficit balance for contractors under option 1.

### **Provision for Replacement (PFR) Adjustment**

Reclamation included an adjustment for the PFR costs originally applied to each contractor's accountings. This adjustment does not include credits that are as a result of historical interest impacts to the contractors. Interest credits are to be adjusted in the following year. Current PFR adjustment by

contractor was netted with the CFO adjustment and as a result will be applied based on the options mentioned above.

### **Administrative Dispute Resolution (ADR)**

#### **East Bay Municipal Utility District (EBMUD) Amendatory Contract.**

EBMUD and several other M&I contractors were actively engaged in an alternative dispute resolution (ADR) process to address the impact of certain provisions of the EBMUD amendatory contract executed July 20, 2001. One of the key objectives of the ADR process was to develop and submit a joint proposal to Reclamation concerning the water delivery base used in allocating capital costs amongst all M&I contractors. Unfortunately, the ADR process reached an impasse, and Reclamation was left to decide on the delivery base issue without the benefit of a consensus proposal from the contractors.

Reclamation, with considerations of the dry year provisions of the amendatory contract, interprets the contract maximum entitlement for EBMUD to be the 3-year average of 165,000 a/f, or 55,000 a/f per year. Please note that this was an **interim** solution for the 2002 water rates, which by agreement between the parties, has been carried over to the 2003 water rates. Reclamation will be collaborating with the contractors in developing a long-term solution.

### **Central Valley Project Improvement Act (CVPIA)**

Prior year water rates have consistently excluded subject capital costs from water rates until such time the crediting of Restoration Fund revenues is determined. As this determination has not yet been made, CVPIA capital costs will remain out of the rate computations.

### **Impact of Legislation**

#### **I. Title Transfer of Sly Park Dam and Reservoir and Sugar Pine Dam and Reservoir**

Public Law 106-377, Section 212, directed Reclamation to transfer all right, title and interest in and to the Sly Park Unit to the El Dorado Irrigation

District. Public Law 106-566, Section 501, directed Reclamation to transfer all right, title and interest in and to the Foresthill Divide Subunit (including Sugar Pine Dam and Reservoir) to the Foresthill Public Utility District. The conditions for which these transfers are to take place have not been completed and in consultation with our Solicitor's Office, these facilities will remain in the ratesetting for capital and related cost recovery until all conditions of the respective legislations are fulfilled.

## **II. City of Roseville Pumping Plant Facilities**

Per Public Law 106-566, Section 301, Reclamation shall credit the City of Roseville for the purchase and funding for the installation of additional pumping plant facilities in accordance with a letter of agreement with Reclamation. Although the credit should have taken effect since two conditions were met, the City requested that the credit be withheld until next year. The conditions were 1) the installation of the pumps has been completed in accordance with the letter of agreement; and 2) Reclamation issued a determination that these facilities are fully operative as intended. Costs for the additional facilities are included with M&I in the same amount.

## **III. Trinity Public Utilities Assessment**

Public Law 106-377, Section 203 directs the Bureau to collect from water service contractors the assessed amount of \$162,000 annually (indexed after June 2000) and pay the amount to the Trinity Public Utility District. Based on discussions by the water community and Reclamation, along with input from the Regional Solicitors' Office, agreement was reached that the assessment would be collected through the water ratesetting process. The assessed amount for 2003 has been included in the rates.

### **Project Use Energy**

For the 2003 ratesetting year, a historical true-up adjustment no longer was included in determining the estimated project use energy costs. The historical true-up adjustment was for costs that extended over a 14-year period and were to be recovered from 1998 through 2002.

### **San Luis Drain**

The Irrigation estimated Operation and Maintenance costs for Kesterson Reservoir have been reduced to reflect \$331,000 that has been budgeted for work to be accomplished in 2003 for the continuation of site cleanup activities. The projects consist of continued monitoring of ephemeral pools, reading of groundwater wells, filling in low areas as recommended in the December 2000 Ecological Risk Assessment, and removal of the office complex structures and debris.

### **Water Marketing**

In coordination with the CVPWA, a work team was established to determine whether or not projected Water Marketing costs reasonably represented what was expected for actual costs. The work team concluded that overall the base costs seemed reasonable, however, general expense cost needed to be reviewed further.

This review had been conducted for the 2002 water rates but, due to competing priorities, has not undergone a public review process. It is anticipated that this process will take place in 2003.

As in the previous year, the estimate used for irrigation and M&I water contractors was based on the actual distribution of general expense costs to irrigation and M&I contractors for the American River Division in FY 2000. This Division's distribution of general expense costs was appropriate since it accounted for roughly 80 percent of the total general expense for the CVP in FY 2000. In this year, 18.5 percent of the American River division general expense costs were distributed and allocated to irrigation and M&I. The 2003 total budgeted costs for CVP are not being adjusted for ratesetting as these expenditures are still planned. However, for 2003, irrigation and M&I estimated general expense was revised to \$666,000 (18.5% times \$3,600,000) resulting in a reduction of \$1,417,141 for irrigation and M&I contractors.

The allocated operation and maintenance costs for 2003 included approximately \$2 million in wheeling costs for the System Control and Load Dispatching activities in water marketing. Since the costs will be recovered

through project use energy, water marketing will be reduced for irrigation and M&I. Additionally, the budget year 2002 estimated costs were reduced by \$1 million for this activity due to a pass back reduction from Washington D.C. once reviewed. This revision was not included in the estimated allocated operation and maintenance costs for 2003. As a result of these revisions, water marketing will be reduced by the irrigation and M&I portion of \$1,547,208 and \$211,888, respectively.

Costs associated with Endangered Species Act Conservation Plan and Endangered Species Conservation Plan were inadvertently included in water marketing allocated O&M costs for 2003 as they are non-reimbursable.

These expenses will be reduced from water marketing by the irrigation and M&I portion of \$357,792 and \$48,999, respectively.

Reclamation appreciates the interest and involvement received from all water entities in the process of reviewing and finalizing the 2003 CVP water rates. For the open issues, Reclamation plans on making a coordinated effort with these water entities to assure the costs and delivery data is representative of what is expected to be allocated and charged to contractors in future years.

Questions on the 2003 CVP water rates should be addressed to Ms. Bonnie Hood at 916-978-5371 (TDD-916-978-5608).